

351.7232
L 72 MSUM
1979

State of Montana

Montana State University
Montana Cooperative Extension Service
Montana Agricultural Experiment Station
Financial Statements and Recommendations
Year ended June 30, 1979

with

Report of Certified Public Accountants
Arthur Young & Company
Wesley C. Carlisle, CPA

PLEASE RETURN

STATE DOCUMENTS COLLECTION

JAN 23 1980

MONTANA STATE LIBRARY
930 E Lyndale Ave.
Helena, Montana 59601



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA



3 0864 1004 7562 6



State of Montana

Montana State University
Montana Cooperative Extension Service
Montana Agricultural Experiment Station
Financial Statements and Recommendations
Year ended June 30, 1979

with

Report of Certified Public Accountants
Arthur Young & Company
Wesley C. Carlisle, CPA

MONTANA STATE UNIVERSITY
MONTANA COOPERATIVE EXTENSION SERVICE
MONTANA AGRICULTURAL EXPERIMENT STATION
June 30, 1979

TABLE OF CONTENTS

PART I

Transmittal letter from Morris L. Brusett,
CPA, Legislative Auditor

Accountants' response to information requested
in paragraph four of audit contract dated
May 18, 1979

Administrative Officials

PART II

Montana State University

Report of certified public accountants

Financial statements:

Balance sheet
Statement of changes in fund balances
Statement of current funds revenues,
expenditures and other changes
Notes to financial statements

Montana Cooperative Extension Service

Report of certified public accountants

Financial statements:

Balance sheet
Statement of changes in fund balances
Statement of current funds revenues
and expenditures
Notes to financial statements

PART I

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

December 1979

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR
JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of Montana State University, the Montana Agricultural Experiment Station and the Montana Cooperative Extension Service for the year ended June 30, 1979.

The audit was conducted by Arthur Young and Company, and Wesley C. Carlisle, CPA, under a contract between the firm, Mr. Carlisle, and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written responses to the report recommendations are included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

ACCOUNTANTS' RESPONSE TO INFORMATION REQUESTED

IN PARAGRAPH FOUR OF AUDIT CONTRACT
DATED MAY 18, 1979

Actions taken by the Agency on recommendations and findings in the areas of financial/compliance, which were included in the last audit report

The agencies have complied with the recommendations and findings included in the prior audit report except for those recommendations regarding property subsidiary records. The agencies progress to date and additional findings are included in Part III of this report under Recommendations and Agencies' Responses.

Compliance with applicable State and Federal statutes and regulations

In connection with our examinations, nothing came to our attention that caused us to believe that the agencies failed to comply with applicable state and Federal statutes and regulations.

Program or activity not authorized by the Legislative Assembly

In connection with our examinations, nothing came to our attention that caused us to believe that any program or activity of the agencies had not been authorized by the Legislative Assembly.

Any serious inadequacies in financial or operating controls and procedures that may be noted during the audit together with the Accountants' recommendations

Our findings and recommendations regarding operating controls and procedures are included in Part III of this report under Recommendations and Agencies' Responses.

THE UNIVERSITY OF CHICAGO

PHILIP H. KATZ

1954-1955

1956-1957

1958-1959

1960-1961

1962-1963

1964-1965

1966-1967

1968-1969

1970-1971

1972-1973

ADMINISTRATIVE OFFICIALS

Dr. William Tietz, President

Stuart Knapp, Vice President
for Academic Affairs

Thomas E. Nopper, Director of
Administration

John Jutila, Vice President
for Research

Dr. Johan A. Asleson
Director, Agricultural Experiment Station

Dr. Carl J. Hoffman, Vice
President for Research
and Director, Cooperative
Extension Service

PART II

MONTANA STATE UNIVERSITY

FINANCIAL STATEMENTS

Year ended June 30, 1979



ARTHUR YOUNG & COMPANY

SECURITY LIFE BUILDING
DENVER, COLORADO 80202

The Legislative Audit Committee of the
Montana State Legislature
Helena, Montana

We have examined the accompanying balance sheet of Montana State University at June 30, 1979 and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following three paragraphs. The financial statements of the plant funds retirement of indebtedness and the accounts of the revenue bonds payable, and certain of the current fund auxiliary enterprises funds have been examined by other independent auditors; insofar as our opinion on the University's financial statements relates to data included for those funds, it is based solely on their report. The statements of the current fund auxiliary enterprises funds examined by other independent auditors show total assets and revenues constituting 50% and 84%, respectively of the current fund auxiliary enterprises funds totals for 1979.

We were not present to observe the physical inventories of the current designated funds at the beginning of the fiscal year, because that date was prior to the date we were engaged as independent auditors for the University, and we did not satisfy ourselves by means of other auditing procedures as to the beginning inventory quantities and the costing thereof.

At the instruction of the State of Montana Legislative Auditor we did not examine the accompanying financial statements of the student loan funds at June 30, 1979 or for the year then ended.

Evidence supporting the cost of land, land improvements and equipment acquired prior to July 1, 1978 is not presently available and the University's records were not such as would permit us to apply alternative auditing procedures to satisfy ourselves regarding the cost of land, land improvements and equipment acquired prior to July 1, 1978.

In our opinion, based upon our examination and the report of other independent auditors, the accompanying statements present fairly the financial position of the current funds at June 30, 1979 and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories and test the costing thereof at the beginning of the year, the changes in fund balances and current funds revenues, expenditures and other changes for the year ended June 30, 1979, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying balance sheet of the student loan funds of Montana State University at June 30, 1979 and the related statement of changes in fund balances for the year then ended were not audited by us and, accordingly, we do not express an opinion on them.

In our opinion, the accompanying financial statements present fairly the financial position of the endowment funds and agency funds of Montana State University at June 30, 1979, and the related changes in fund balances of the endowment funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Because of the matter discussed in the fourth preceding paragraph, the scope of our work and that of other independent auditors regarding land, land improvements and equipment as of June 30, 1978 was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the plant funds of Montana State University at June 30, 1979 or for the year then ended.

Arthur Young & Company
Arthur Young & Company

and

Wesley Carlisle
Wesley C. Carlisle, CPA

December 5, 1979

MONTANA STATE UNIVERSITY

BALANCE SHEET
(CONTINUED)

June 30, 1979

ASSETS		LIABILITIES AND FUND BALANCES	
Endowment funds:		Endowment funds:	
Investments and cash (Note 3)	\$ 2,741,836	Due to other fund groups	\$ 20,000
Land contract receivables	18,087	Fund balance	3,693,779
Land (Note 2)	953,856		
Total endowment funds	<u>\$ 3,713,779</u>	Total endowment funds	<u>\$ 3,713,779</u>
Plant funds:		Plant funds:	
Unexpended:		Unexpended:	
Cash	\$ 112,948	Due to other fund groups	\$ 50,000
Investments (Note 3)	443,857	Fund balance	567,870
Construction advances	61,065		
Total unexpended	<u>617,870</u>	Total unexpended	<u>617,870</u>
Renewals and replacements:		Renewals and replacements:	
Cash	8,575	Due to other fund groups	27,000
Accounts receivable	11,131	Fund balance	78,043
Investments	85,337		
Total renewals and replacements	<u>105,043</u>	Total renewals and replacements	<u>105,043</u>
Retirement of indebtedness:		Retirement of indebtedness:	
Cash	596,931	Accounts payable	1,285
Investments (Note 3)	4,152,297	Fund balance	4,824,943
Due from other fund groups	77,000		
Total retirement of indebtedness	<u>4,826,228</u>	Total retirement of indebtedness	<u>4,826,228</u>
Investment in plant:		Investment in plant:	
Land and land improvements	1,967,031	Revenue bonds payable (Note 5)	19,468,000
Buildings	57,904,877	Other payables	117,905
Equipment	19,087,109	Net investment in plant	59,375,112
Total investment in plant	<u>78,959,017</u>	Total investment in plant	<u>78,959,017</u>
Total plant funds	<u>\$84,508,158</u>	Total plant funds	<u>\$84,508,158</u>
Agency funds:		Agency funds:	
Cash	\$ 616,455	Accounts payable	\$ 863,428
Investments (Note 3)	515,293	Deposits held in custody for others	488,320
Due from other fund groups	20,000		
Total agency funds	<u>\$ 1,151,748</u>	Total agency funds	<u>\$ 1,151,748</u>

See accompanying notes.

14 000 000 000

14 000 000 000

14 000 000 000

14 000 000 000

MONTANA STATE UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES

Year ended June 30, 1979

	Current funds			Student loan funds (unaudited)	Endowment funds	Plant funds		
	General	Unrestricted	Auxiliary enterprise			Unexpended	Renewals and Retirement of replacements	Investment in plant
Revenues and other additions:								
Unrestricted current funds revenues	\$23,600,783	\$3,855,195	\$ 7,924,302	\$ -	-	\$ -	\$ -	\$ -
Gifts, grants and contracts - restricted	-	-	-	501,602	-	-	-	-
Federal contributions	-	-	-	50,833	-	-	-	-
University capital contributions	-	-	-	-	1,150	-	19,109	-
Private contributions	-	-	-	74,018	-	-	-	-
Interest on loans receivable	-	-	-	-	90,757	-	-	-
Gain on sale of assets	-	-	-	-	-	-	-	-
Student fees	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-	-	-	-
Expended for plant facilities (Note 4)	-	-	-	-	-	64,675	7,034	1,323,560
Endowment income and grants (Note 2)	-	-	-	-	-	-	-	270,720
Other income	-	-	-	-	-	-	-	-
Total revenues and other additions	23,600,783	3,855,195	7,924,302	5,555	6,976	-	-	-
				631,808	98,883	64,675	26,143	3,484,758
Expenditures and other deductions:								
Expenditures								
Loan cancellations	-	-	-	-	-	-	-	-
Refunded to grantors	-	-	-	98,620	-	-	-	-
Administrative expenditures	-	-	6,810,852	4,169	-	-	-	-
Provision for doubtful loans	-	-	-	43,144	-	-	-	-
Expended for plant facilities (Note 4)	-	-	-	5,983	-	-	-	-
Retirement of indebtedness	-	-	-	-	-	1,437,303	294,077	-
Interest on indebtedness	-	-	-	-	-	-	-	666,536
Miscellaneous deductions	-	-	-	-	-	-	-	952,882
				-	-	-	-	24,221
Total expenditures and other deductions	23,379,768	3,903,868	6,810,852	151,916	-	1,437,303	294,077	12,742
Total expenditures and other deductions	23,379,768	3,903,868	6,810,852	151,916	-	1,437,303	294,077	12,742
Transfer among funds - additions (deductions):								
Mandatory:								
Loan fund matching	(6,649)	-	-	6,649	-	-	-	-
Retirement of indebtedness	-	-	(1,100,000)	-	-	-	1,100,000	-
Voluntary:								
Auxiliary enterprises - net	-	-	73,704	-	-	-	(73,704)	-
Unexpended plant	-	(10,000)	(38,549)	-	-	303,463	(55,642)	(199,272)
Renewals and replacements	-	-	(50,000)	-	-	-	240,000	(190,000)
Retirement of indebtedness	-	-	-	-	-	-	(2,001)	2,001
Total transfers	(6,649)	(10,000)	(1,114,845)	6,649	-	303,463	182,357	639,025
Net increase (decrease) for the year	214,366	(58,491)	(1,395)	486,541	98,883	(1,069,165)	(85,577)	3,472,010
Fund balances at beginning of year, as previously reported	(41,374)	1,001,841	678,481	5,618,064	3,594,896	1,643,495	163,620	60,892,050
Prior year adjustments:								
Record accounts receivable at June 30, 1978	-	-	-	-	-	-	-	-
Record additional expenditures	(23,424)	(34,710)	(93,420)	-	-	(6,460)	-	-
Record additional revenues	41,718	-	28,219	-	-	-	-	-
Write off uncollectible accounts receivable	(75,000)	-	-	-	-	-	10,923	-
Record amounts due from (to) other funds	16,657	(16,657)	-	-	-	-	-	-
Adjust buildings to estimated original costs (Note 1)	-	-	-	-	-	-	-	-
Total prior year adjustments	(40,049)	(51,387)	(65,201)	-	-	(6,460)	-	(4,988,954)
Fund balances at beginning of year, as adjusted	(81,423)	950,474	613,280	5,618,064	3,594,896	1,837,035	163,620	55,903,096
Fund balances at end of year	\$ 132,343	\$ 891,983	\$ 611,885	\$ 6,104,605	\$ 3,693,779	\$ 567,870	\$ 78,043	\$ 59,375,112

See accompanying notes.

MONTANA STATE UNIVERSITY

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

Year ended June 30, 1979

	Unrestricted			
	General	Designated	Auxiliary enterprises	
Revenues:				
Tuition and fees	\$ 5,057,736	\$ -	\$ -	\$ 5,057,736
Federal appropriations	211,459	-	-	211,459
State appropriations	16,826,602	-	-	16,826,602
Federal grants and contracts	909,494	-	-	909,494
State grants and contracts	63,901	-	-	63,901
Private gifts, grants and contracts	158,588	-	-	158,588
Endowment income	261,137	-	-	261,137
Other sources	111,866	-	-	111,866
Sales and services designated and auxiliary enterprises	-	3,855,195	7,924,302	11,779,497
Total revenues	23,600,783	3,855,195	7,924,302	43,058,123
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	13,432,628	-	-	13,432,628
Research	444,197	-	-	444,197
Public service	42,884	-	-	42,884
Academic support	2,677,240	-	-	2,677,240
Student services and aid	2,101,303	-	-	2,101,303
Institutional support	2,006,225	-	-	2,006,225
Operation and maintenance of plant	2,104,624	-	-	2,104,624
Scholarships and fellowships	570,867	-	-	570,867
Other	-	-	-	-
Educational and general expenditures	23,379,768	-	-	23,379,768
Mandatory transfers for loan fund matching grant	6,649	-	-	6,649
Total educational and general	23,386,417	-	-	23,386,417
Designated and auxiliary enterprises:				
Expenditures	-	3,903,886	6,810,852	10,714,538
Mandatory transfers for retirement of indebtedness	-	-	1,100,000	1,100,000
Total designated and auxiliary	-	3,903,886	7,910,852	11,814,538
Total expenditures and mandatory transfers	23,386,417	3,903,886	7,910,852	42,878,798
Other transfers and additions (deductions):				
Excess of restricted receipts over transfers to revenues	-	-	-	260,345
Transfers from retirement of indebtedness to plant funds	-	(10,000)	73,704	73,704
Net increase (decrease) in fund balances	\$ 214,366	\$ (58,491)	\$ (1,395)	\$ 414,825

See accompanying notes.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use.

Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements.

The common characteristics of the funds contained in the various fund groups are as follows:

Current funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups; unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for general operations, except these funds are separately classified in order to distinguish specialized service or function areas.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Fund accounting (continued):

Current funds (continued):

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty, and staff.

Student loan funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and University sources with the majority of the funds being provided by the Federal Government.

Endowment funds:

Endowment funds are funds with specific restrictions negating the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant funds:

Plant funds are separated into four distinct self-balancing sub-group accounts:

Unexpended plant - utilized for acquisition of long-term institutional assets.

Renewal and replacement - utilized for long-term institutional asset maintenance.

Retirement of indebtedness - utilized for debt servicing and retirement of indebtedness.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Fund accounting (continued):

Plant funds (continued):

Investment in plant - denotes the cost of long-term institutional assets and related liabilities.

Inventories:

Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

Investments:

Investments are carried at cost, which approximate market value at June 30, 1979.

Plant and equipment:

During the current year, the University has identified the actual costs of certain buildings and has estimated the costs of the balance of the buildings it owns. As a result the building accounts have been decreased by \$4,988,954, with a similar decrease in investment in plant as of the beginning of the year.

The University has not identified the actual costs or estimated the costs of all land, land improvements and equipment it owns nor do detail records adequately support the general ledger balances for these assets. At June 30, 1979, the land, land improvements and equipment are carried at the amounts reflected in the

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Plant and equipment (continued):

general ledger control accounts which have not been adjusted for retirements nor have all asset costs been properly reflected therein.

Depreciation:

No provision has been made for depreciation of plant facilities.

Unearned tuition and fees:

Summer school tuition and fee revenues are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

Allocated for encumbrances:

The University reports to the State of Montana include encumbrances as expenditures in conformance with the State reporting system.

At June 30, 1979, the University had encumbered \$66,000 of funds that are not included in expenditures in the accompanying financial statements in order to account for expenditures on the accrual basis of accounting. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

2. Endowment funds - land grants

Montana State University benefits from two separate land grants. The first granted 90,000 acres to the University under provisions of the Morrill Act of 1862 and the second grant under the Enabling Act of 1889, granted an additional 50,000 acres to the University.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund.

As of June 30, 1979, 62,977 acres remained unsold from the first grant and 32,408 acres from the second grant. This land is carried at \$10 per acre for accounting purposes. The State Land Board administers both grants and holds all assets.

Investment income from the first grant may be used for current operations of the University and is reported as current unrestricted funds revenue. Investment income from the second grant is currently pledged to the retirement of the July 1, 1954 indenture revenue bonds and is reported as revenue in the retirement of indebtedness fund.

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

3. Investments

Investments at June 30, 1979 consist of the following:

	<u>Cost</u>
Montana short-term investment pool	\$3,192,446
U.S. Treasury notes and bills held by trustees	3,186,404
Cash and investments administered by State Land Board	2,447,438
Certificates of deposit	<u>255,000</u>
	<u>\$9,081,288</u>

The investments at June 30, 1979 are owned by the following funds:

Current funds:	
Designated	\$ 10,000
Auxiliary enterprises	865,755
Restricted	266,913
Endowment funds	2,741,836
Plant funds:	
Unexpended	443,857
Renewals and replacements	85,337
Retirement of indebtedness	4,152,297
Agency	<u>515,293</u>
	<u>\$9,081,288</u>

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

4. Plant funds expenditures

Unexpended plant fund expenditures for the year ended June 30, 1979 consist of the following:

Buildings:

Project Title:

Family housing 1976	\$ 29,571
Auto repair shop	116,789
Tennis court	33,021
Handball and racquetball courts	241,580
Lewis & Clark kitchen remodel	607,733
Hapner Hall reroof	15,523
Hannon Hall	22,403
Remodel dormitories	221,438
Demolition of obsolete housing	11,526
Health and physical education	18,410
Married students housing	31,984
Other miscellaneous projects	<u>74,585</u>

1,424,563

Equipment

12,740

\$1,437,303

Renewal and replacement expenditures for the year ended June 30, 1979 were as follows:

Buildings	\$ 78,980
Equipment	87,101
Not-capitalized	<u>127,996</u>
	<u>\$ 294,077</u>

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

4. Plant funds expenditures (continued)

Capital additions to investment in plant charged to current funds during the year ended June 30, 1979 were as follows:

Equipment	\$ 1,201,925
Livestock	8,392
Land and land improvements	3,546
Buildings	<u>975</u>
	<u>\$ 1,214,838</u>

5. Revenue bonds payable

Revenue bonds payable at June 30, 1979 include the following:

(A) Bond indenture - July 1, 1954	\$13,805,000
(B) Bond indenture - January 1, 1956	101,000
(C) Resolution - October 14, 1963	3,885,000
(D) Resolution - April 12, 1971	<u>1,675,000</u>
	<u>\$19,466,000</u>

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

5. Revenue bonds payable (continued)

(A) Bond indenture - July 1, 1954:

Various series of bonds have been issued under this indenture from 1954 through 1973. The proceeds have been used to construct dormitories, married student housing and the student union building. The bonds are due in annual amounts ranging from \$214,000 to \$914,000, plus semi-annual interest at 3.5% to 7%, through 2003. The following sources of revenue are pledged under the bond indenture for the payment of bond principal and interest:

- (1) Net revenues from all residence halls.
- (2) Net revenues from most units of married student and faculty housing.
- (3) Net revenues from the student union building.
- (4) Certain student fees totaling \$10 per quarter per full-time student.
- (5) Annual debt service grants from the U.S. Department of Housing & Urban Development.
- (6) Income from the second Federal Land Grant.

Earnings pledged in excess of indenture requirements may be used for repairs and replacements to the pledged facilities and for early bond retirement.

(B) Bond indenture - January 1, 1956:

The University fieldhouse was constructed from the sale of bonds under this indenture. The bonds, because of early retirements, are due in annual payments ranging from \$3,000 to \$50,000, plus semi-annual interest at 3.6%, in five various years through 1990. The net revenues from the operation of the fieldhouse plus certain student fees totaling \$9 per quarter per full-time student are pledged under the indenture for the payment of bond principal and interest. Earnings

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

5. Revenue bonds payable (continued)

(B) Bond indenture - January 1, 1956 (continued):

pledged in excess of indenture requirements may be used for repairs and replacements to the fieldhouse, early debt retirement and for any other lawful purpose.

(C) Bond resolution - October 14, 1963:

Two series of bonds have been issued under this resolution in 1963 and 1971. The proceeds have been used to construct non-revenue producing academic buildings. The bonds are due in annual amounts ranging from \$20,355 to \$355,000, plus semi-annual interest at 3.0% and 3.75%, through 1997. The revenues from certain student fees, \$20 per resident and \$24 per non-resident per quarter per full-time student, are pledged under the indenture for the payment of bond principal and interest. Earnings pledged in excess of resolution requirements may be used for early debt retirement and for any other lawful purpose.

(D) Bond resolution - April 12, 1971:

Proceeds from the sale of bonds under this resolution were used for the cost of construction of the physical education complex, running track and one-half of the football stadium. The bonds are due in annual amounts ranging from \$40,000 to \$140,000, plus semi-annual interest at 4.5% to 6.0%. A student fee of \$9.25 per quarter per full-time student is pledged under the resolution for the payment of bond principal and interest. Earnings pledged in excess of resolution requirements may be used for early debt retirement and for any other lawful purpose.

The annual payments for bond retirements are as follows:

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

5. Revenue bonds payable (continued)

1980	\$ 545,000
1981	569,000
1982	784,000
1983	738,000
1984	738,000
1985-1989	3,496,000
1990-1994	5,789,000
1995-1999	5,649,000
2000-2003	1,158,000

6. Retirement plans

All of the University's full-time employees are members of the Montana Public Employees Retirement System or Montana Teacher's Retirement System. The University's contributions to these plans totaled \$1,360,000 for the year ended June 30, 1979.

7. Commitments and contingencies

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. The vacation and sick leave are recorded as an expenditure at the time they are paid to the employee.

As of June 30, 1979, the State of Montana Legislature and the Board of Regents have approved the following capital expenditures for the University:

MONTANA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS

June 30, 1979

7. Commitments and contingencies (continued)

<u>Project</u>	<u>Totals</u>
Physical education facilities	\$ 2,500,000
Student union building	4,000,000
Computer acquisition	2,500,000
Veterinary clinic remodeling	90,000
Animal facilities planning	90,000
Film and TV building planning	225,000
Total authorized by Legislature	<u>9,405,000</u>
Additional authorized by regents -	
Married students housing	3,200,000
Student union building	1,000,000
Total authorized by Regents	<u>4,200,000</u>
Total	<u>\$13,605,000</u>

The University is a co-defendent in pending or threatened lawsuits alleging negligence in the certification of potato seed. Management and counsel for the University are of the opinion that the claims are without merit, and liability, if any, will be covered by the University's insurance.

8. Student full-time equivalent

Full-time equivalent student enrollment (FTE), computed by dividing the undergraduate quarterly credit hours produced by 15 and graduate quarterly credit hours produced by 12, was as follows:

<u>Quarter</u>	<u>F.T.E.</u>
Summer 1978	1,321
Autumn 1978	9,650
Winter 1979	9,443
Spring 1979	8,250
Fiscal year 1978-1979	9,555

MONTANA COOPERATIVE EXTENSION SERVICE

FINANCIAL STATEMENTS

Year ended June 30, 1979

ARTHUR YOUNG & COMPANY

SECURITY LIFE BUILDING
DENVER, COLORADO 80202

The Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

We have examined the accompanying balance sheet of Montana Cooperative Extension Service at June 30, 1979 and the related statements of changes in fund balances and current funds revenues and expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as noted in the following two paragraphs.

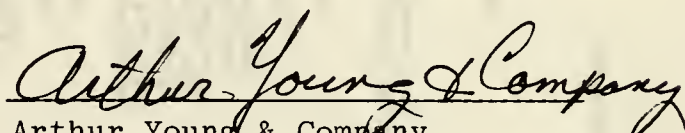
We were not present to observe the physical inventories of the current designated funds at the beginning of the fiscal year, because that date was prior to the date we were engaged as independent auditors for the Service and, we did not satisfy ourselves by means of other auditing procedures as to the beginning inventory quantities and costing thereof.

Evidence supporting the cost of buildings and equipment acquired prior to July 1, 1978 is not presently available and the Service's records were not such as would permit us to apply alternative auditing procedures to satisfy ourselves regarding the cost of buildings and equipment acquired prior to July 1, 1978.

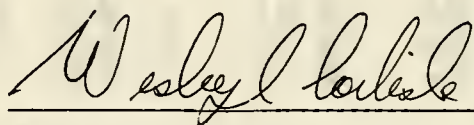
In our opinion, the accompanying statements present fairly the financial position of the current funds of Montana Cooperative Extension Service at June 30, 1979 and, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories and test the costing thereof at the beginning of the year, the changes in fund balances and current

funds revenues, expenditures and other changes for the year ended June 30, 1979, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Because of the matter discussed in the second preceding paragraph, the scope of our work regarding buildings and equipment as of July 1, 1978 was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the plant funds of Montana Cooperative Extension Service at June 30, 1979 or for the year then ended.


Arthur Young & Company

and


Wesley C. Carlisle, CPA

December 5, 1979

...and the ...
...
...
...

...
...
...
...
...
...

...

...

MONTANA COOPERATIVE EXTENSION SERVICE

BALANCE SHEET

June 30, 1979

ASSETS

Current funds:	
Unrestricted:	
General:	
Cash	\$171,649
Accounts receivable	16,130
	<u>187,779</u>
	Total general
	187,779
Designated:	
Cash	189,007
Accounts receivable	33,935
Inventories	50,175
Due from other fund groups	3,000
	<u>276,117</u>
	Total designated
	276,117
Total unrestricted	463,896
Restricted:	
Cash	165,074
	<u>165,074</u>
	Total restricted
	165,074
Total current funds	<u>\$628,970</u>
Plant funds:	
Investment in plant:	
Buildings	\$ 29,529
Equipment	591,038
	<u>\$620,567</u>
Total plant funds	

LIABILITIES AND FUND BALANCES

Current funds:	
Unrestricted:	
General:	
Accrued payroll	\$146,354
Accounts payable	26,261
Fund balance:	
Allocated for encumbrances	7,600
Unallocated	7,564
	<u>15,164</u>
	Total general
	187,779
Designated:	
Accrued payroll	13,816
Accounts payable	24,305
Fund balance:	
Allocated for encumbrances	14,500
Unallocated	223,496
	<u>237,996</u>
	Total designated
	276,117
Total unrestricted	463,896
Restricted:	
Accrued payroll	45,750
Accounts payable	11,559
Due to other fund groups	3,000
Fund balance:	
Allocated for encumbrances	23,000
Unallocated	81,765
	<u>104,765</u>
	Total restricted
	165,074
Total current funds	<u>\$628,970</u>
Plant funds:	
Net investment in plant	\$620,567
	<u>\$620,567</u>
Total plant funds	

See accompanying notes.

MONTANA COOPERATIVE EXTENSION SERVICE
STATEMENT OF CHANGES IN FUND BALANCES

Year ended June 30, 1979

	Current Funds		Plant Funds Investment in plant
	Unrestricted	Restricted	
	General	Designated	
Revenues and other additions:			
Unrestricted current funds revenues	\$2,358,364	\$364,157	\$ -
Gifts, grants and contracts - restricted	-	-	-
Expended for plant facilities (charged to current funds expenditures)	-	-	38,159
Total revenues and other additions	<u>2,358,364</u>	<u>364,157</u>	<u>38,159</u>
Expenditures	<u>2,366,387</u>	<u>213,061</u>	<u>-</u>
Net increase (decrease) for the year	<u>(8,023)</u>	<u>151,096</u>	<u>38,159</u>
Fund balances at beginning of year, as previously reported	<u>(52,341)</u>	<u>96,717</u>	<u>582,408</u>
Prior year adjustments:			
Record additional revenues	75,528	-	-
Record additional expenditures	-	(36,719)	-
Record inventory at June 30, 1978	-	26,902	-
Total prior year adjustments	<u>75,528</u>	<u>(9,817)</u>	<u>-</u>
Fund balances at beginning of year, as adjusted	<u>23,187</u>	<u>86,900</u>	<u>582,408</u>
Fund balances at end of year	<u>\$ 15,164</u>	<u>\$237,996</u>	<u>\$620,567</u>

See accompanying notes.

MONTANA COOPERATIVE EXTENSION SERVICE

STATEMENT OF CURRENT FUNDS REVENUES AND EXPENDITURES

Year ended June 30, 1979

	Unrestricted		Restricted	Total
	General	Designated		
Revenues:				
Federal appropriations	\$1,183,174	\$ -	\$449,495	\$1,632,669
State appropriations	1,175,190	-	75,444	1,250,634
Federal grants and contracts	-	-	94,767	94,767
State grants and contracts	-	-	15,796	15,796
Local grants and contracts	-	-	21,477	21,477
Private gifts, grants and contracts	-	-	105,249	105,249
Multilith	-	253,223	-	253,223
Seed certification	-	110,934	-	110,934
Other sources	-	-	6,426	6,426
Total revenues	2,358,364	364,157	768,654	3,491,175
Expenditures:				
Public service	1,824,464	-	767,096	2,591,560
Institutional support	519,838	-	1,558	521,396
Operation and maintenance of plant	22,085	-	-	22,085
Multilith	-	202,252	-	202,252
Seed certification	-	10,809	-	10,809
Total expenditures	2,366,387	213,061	768,654	3,348,102
Excess of restricted receipts over expenditures	-	-	5,010	5,010
Net increase (decrease) in fund balances	\$ (8,023)	\$151,096	\$ 5,010	\$ 148,083

See accompanying notes.

MONTANA COOPERATIVE EXTENSION SERVICE

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related-party transactions, including sharing office facilities, management, and accounting and office services. The accounts of Montana Agricultural Experiment Station and Montana State University have not been included in the accompanying financial statements.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statement of current funds revenues and expenditures is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund accounting:

The accounts of the Service are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the

MONTANA COOPERATIVE EXTENSION SERVICE

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Fund accounting (continued):

limitations and restrictions placed upon their use. Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into groups and reflected as such in the accompanying financial statements.

Inventory:

Inventory of paper and supplies are valued at cost (first-in, first-out method).

Buildings and equipment:

The Service has not identified the actual cost or estimated the cost of all buildings and equipment it owns nor do detail records adequately support the general ledger balances of these assets. At June 30, 1979, buildings and equipment are carried at the amounts reflected in the general ledger control accounts which have not been adjusted for retirements nor have all asset costs been properly reflected therein.

Depreciation:

No provision has been made for depreciation of buildings and equipment.

Allocated for encumbrances:

The Service reports to the State of Montana include encumbrances as expenditures in conformance with the State reporting system.

MONTANA COOPERATIVE EXTENSION SERVICE

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Allocated for encumbrances (continued):

At June 30, 1979, the Service had encumbered \$45,100 of funds that are not included in expenditures in the accompanying financial statements in order to account for expenditures on the accrual basis of accounting. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

2. Retirement plans

All of the Service's full-time employees are members of the Montana Public Employees Retirement System, Montana Teachers Retirement System or the U.S. Civil Service Retirement System. Employer contributions to these systems totaled \$196,000 for the year ended June 30, 1979.

3. Commitments and contingencies

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. The vacation and sick leave are recorded as an expenditure at the time they are paid to the employee.

MONTANA AGRICULTURAL EXPERIMENT STATION

FINANCIAL STATEMENTS

Year ended June 30, 1979

ARTHUR YOUNG & COMPANY

SECURITY LIFE BUILDING
DENVER, COLORADO 80202

The Legislative Audit Committee
of the Montana State Legislature
Helena, Montana

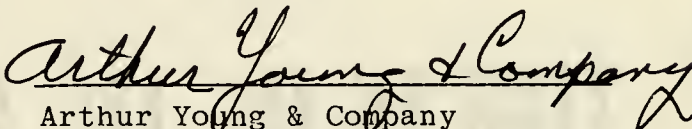
We have examined the accompanying balance sheet of the Montana Agricultural Experiment Station at June 30, 1979 and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as noted in the following two paragraphs.

Evidence supporting the cost of land, land improvements, buildings and equipment acquired prior to July 1, 1978 is not presently available and the Station's records were not such as would permit us to apply alternative auditing procedures to satisfy ourselves regarding the cost of land, land improvements, buildings and equipment acquired prior to July 1, 1978.

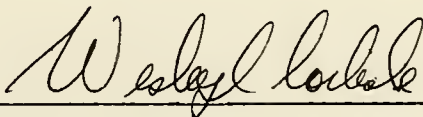
We were not present to observe the physical livestock inventory at the beginning of the fiscal year, because that date was prior to the date we were engaged as independent auditors for the Station, and, we did not satisfy ourselves by means of other auditing procedures as to the beginning livestock quantities and pricing thereof.

In our opinion, the accompanying financial statements present fairly the financial position of the current funds of Montana Agricultural Experiment Station at June 30, 1979 and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Because of the matters discussed in the second and third preceding paragraphs, the scope of our work regarding land and land improvements, buildings, equipment and livestock as of July 1, 1978 was not sufficient to enable us to express, and we do not express an opinion on the accompanying financial statements of the plant funds of Montana Agricultural Experiment Station at June 30, 1979 or for the year then ended.


Arthur Young & Company

and


Wesley C. Carlisle, CPA

December 5, 1979

MONTANA AGRICULTURAL EXPERIMENT STATION

BALANCE SHEET

June 30, 1979

ASSETS

Current funds:
 Unrestricted:
 General operating:
 Cash
 Accounts receivable
 Due from other fund groups
 Investments (Note 2)
 Total general operating

Designated:
 Cash
 Total designated
 Total unrestricted

Restricted:
 Cash
 Investments (Note 2)

Total restricted
 Total current funds

Plant funds:
 Unexpended:
 Cash
 Investments (Note 2)
 Total unexpended

Renewals and replacements:
 Cash
 Investments (Note 2)
 Total renewals and replacements

Investment in plant:
 Land and land improvements
 Buildings
 Equipment
 Livestock
 Total investment in plant
 Total plant funds

LIABILITIES AND FUND BALANCES

Current funds:
 Unrestricted:
 General operating:
 Accrued payroll
 Accounts payable
 Fund balance:
 Allocated for encumbrances
 Unallocated
 Total general operating

Designated:
 Fund balance
 Total designated
 Total unrestricted

Restricted:
 Accrued payroll
 Accounts payable
 Due to other fund groups
 Fund balance:
 Allocated for encumbrances
 Unallocated
 Total restricted

Total current funds

Plant funds:
 Unexpended:
 Fund balance
 Total unexpended

Renewals and replacements:
 Accounts payable
 Fund balance
 Total renewals and replacements

Investment in plant:
 6% note payable, due December 31, 1979
 Net investment in plant

Total investment in plant
 Total plant funds

\$ 298,035
 179,472

367,000
1,089,319

1,456,319
1,933,826

13,472

13,472

1,947,298

5,621
 2,683
 19,000

7,000
28,471

35,471

62,775

\$2,010,073

\$ 126,340

126,340

5,400

59,913

65,313

25,802

9,214,246

9,240,048

\$9,431,701

See accompanying notes.

MONTANA AGRICULTURAL EXPERIMENT STATION
STATEMENT OF CHANGES IN FUND BALANCES

Year ended June 30, 1979

	Current Funds		Plant Funds		
	Unrestricted	Restricted	Unexpended	Renewals and Retirement of replacements	Investment in plant
	General operating	Designated			
Revenues and other additions:					
Unrestricted current funds revenues	\$6,207,516	\$200,739	\$ -	\$ -	\$ -
Gifts, grants and contracts - restricted	-	145,485	-	-	-
Miscellaneous income	-	-	48,653	9,085	-
Expended for plant facilities (Note 3)	-	-	-	-	461,110
Retirement of indebtedness	-	-	-	-	32,601
Adjust livestock to current market value (Note 1)	-	-	-	-	654,043
Total revenues and other additions	6,207,516	200,739	48,653	9,085	1,147,754
Expenditures and other deductions:					
Current funds expenditures	5,842,429	237,558	-	-	-
Expended for plant facilities	-	-	8,766	7,212	-
Retirement of indebtedness	-	-	-	-	32,601
Interest on indebtedness	-	-	-	-	3,572
Miscellaneous deductions	-	-	-	-	15
Total expenditures	5,842,429	237,558	8,766	7,212	36,188
Transfers among funds - additions (deductions):					
Retirement of indebtedness	(7,279)	-	(28,909)	-	-
Total transfers	(7,279)	-	(28,909)	-	-
Net increase (decrease) in fund balances	357,808	(868)	10,978	1,873	1,147,754
Fund balances at beginning of year, as previously reported	1,158,299	38,561	115,382	64,239	8,067,093
Prior year adjustments:					
Record cost of land	(50,291)	-	-	-	6,199
Reclassify designated funds	(9,497)	(2,222)	-	(6,199)	(6,800)
Record additional expenditures	(59,788)	(2,222)	-	(6,199)	(601)
Total prior year adjustments	1,098,511	36,339	115,362	58,040	8,066,492
Fund balances at beginning of year, as adjusted	\$1,456,319	\$35,471	\$126,340	\$59,913	\$2,214,246
Fund balances at end of year					

See accompanying notes.

MONTANA AGRICULTURAL EXPERIMENT STATION

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES

Year ended June 30, 1979

	Unrestricted		Restricted	Total
	General operating	Designated		
Revenues:				
State appropriations	\$3,107,730	\$ -	\$ 75,138	\$3,182,868
Federal grants and contracts	1,265,449	-	67,488	1,332,937
Livestock sales	1,546,436	200,739	-	1,747,175
Sales of grain and service income	199,859	-	-	199,859
Investment income	88,042	-	3,727	91,769
Total revenues	<u>6,207,516</u>	<u>200,739</u>	<u>146,353</u>	<u>6,554,608</u>
Expenditures:				
Research	5,323,004	-	146,353	5,469,357
Academic support	15,190	-	-	15,190
Institutional support	376,466	-	-	376,466
Operation and maintenance of plant	127,789	-	-	127,789
Cattle purchases	-	237,558	-	237,558
Total expenditures	<u>5,842,429</u>	<u>237,558</u>	<u>146,353</u>	<u>6,226,340</u>
Transfers and other additions (deductions):				
Retirement of indebtedness	(7,279)	-	-	(7,279)
Excess of restricted expenditures over transfers to revenues	-	-	(868)	(868)
Net increase (decrease) in fund balances	<u>\$ 357,808</u>	<u>\$ (36,819)</u>	<u>\$ (868)</u>	<u>\$ 320,121</u>

See accompanying notes.

MONTANA AGRICULTURAL EXPERIMENT STATION

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies

Related parties:

Montana State University, Montana Agricultural Experiment Station and Montana Cooperative Extension Service are related through common management and control; however, they are separate and distinct agencies and they receive separate federal and state appropriations. These agencies have certain related party transactions, including sharing office facilities, management and accounting and office services. The accounts of Montana State University and Montana Cooperative Extension Service have not been included in the accompanying financial statements.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statement of current funds revenues, expenditures and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund accounting:

The accounts of the Station are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the

MONTANA AGRICULTURAL EXPERIMENT STATION

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Fund accounting (continued):

limitations and restrictions placed upon their use. Separate accounts are maintained for each fund, however, accounts with common characteristics are combined into groups and reflected as such in the accompanying financial statements.

Buildings and equipment:

The Station has not identified the actual costs or estimated the costs of all land, land improvements, buildings and equipment it owns, nor do detail records adequately support the general ledger balances for these assets. At June 30, 1979, these assets are carried at the amounts reflected in the general ledger control accounts which have not been adjusted for retirements nor have all asset costs been properly reflected therein.

Depreciation:

No provision has been made for depreciation of plant facilities.

Allocated for encumbrances:

The Station reports to the State of Montana include encumbrances as expenditures in conformance with the State reporting system.

At June 30, 1979, the Station had encumbered \$374,000 of funds that are not included in expenditures in the accompanying financial statements in order to account for expenditures on the accrual basis of accounting. The accrual basis of accounting provides that

MONTANA AGRICULTURAL EXPERIMENT STATION

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

1. Summary of significant accounting policies (continued)

Allocated for encumbrances (continued):

expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

Investments:

Investments are carried at cost, which approximate market value at June 30, 1979.

Livestock:

Livestock is purchased for experimental purposes, either as a breeding herd or for range management. The Station does not maintain records to identify the unit costs of production or maintenance. As a result, the revenues from sales of livestock are recorded as revenue in the general operating funds, except when a breeding animal is sold and is expected to be replaced, the sales proceeds are recorded as revenue in designated funds and the proceeds are used for replacement costs as needed. The livestock is carried at current market value and any differences from the prior year values are recorded in the plant fund.

2. Investments

Investments at June 30, 1979 consist of the following:

	<u>Cost</u>
Montana short-term investment pool	\$1,528,511
Other	<u>16,000</u>
	<u>\$1,544,511</u>

MONTANA AGRICULTURAL EXPERIMENT STATION

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

2. Investments (continued):

The investments at June 30, 1979 are owned by the following funds:

Current funds:	
General operating	\$1,316,586
Restricted	47,259
Plant funds:	
Unexpended	118,029
Renewals and replacements	<u>62,637</u>
	<u>\$1,544,511</u>

3. Capital expenditures

Capital expenditures in the current year consisted of:

	Current funds	Plant funds		Total
		Unexpended	Renewals and replacements	
Land	\$ 54,749	\$8,691	\$6,000	\$ 69,440
Building	24,000	75	-	24,075
Equipment	130,448	-	-	130,448
Livestock	<u>237,147</u>	<u>-</u>	<u>-</u>	<u>237,147</u>
	<u>\$446,344</u>	<u>\$8,766</u>	<u>\$6,000</u>	<u>\$461,110</u>

MONTANA AGRICULTURAL EXPERIMENT STATION

NOTES TO FINANCIAL STATEMENTS

June 30, 1979

4. Retirement plans

All of the Station's full-time employees are members of the Montana Public Employees Retirement System, or the Montana Teachers Retirement System. Employer contributions to these systems totaled \$220,000 for the year ended June 30, 1979.

5. Commitments and contingencies

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25% of the accumulated sick leave. The vacation and sick leave are recorded as an expenditure at the time they are paid to the employee.

PART III

ARTHUR YOUNG & COMPANY

SECURITY LIFE BUILDING
DENVER, COLORADO 80202

The Legislative Audit Committee
Helena, Montana

We have examined the financial statements of Montana State University, Montana Agricultural Experiment Station, and Montana Cooperative Extension Service for the year ended June 30, 1979 and have issued our reports thereon dated December 5, 1979. As part of our examinations, we studied and tested the system of internal accounting control to the extent we considered necessary under generally accepted auditing standards. As noted in our reports, our examinations did not include certain portions of Montana State University, as at the direction of the State Legislative Auditor, the loan funds of Montana State University were not examined and we relied on the examination by other auditors as to the plant funds, retirement of indebtedness, the accounts of the revenue bonds payable, and certain of the auxiliary enterprise funds. Since these funds and accounts were not included in the scope of our examinations, we did not study or test the related system of internal accounting control pertaining to such funds and accounts. Our study and testing of the system of internal accounting control was done to establish a basis for relying on such system in determining the nature, timing and extent of the other auditing procedures necessary to enable us to express an opinion on the financial statements and otherwise to assist us in planning and performing our examinations of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits expected to be derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally

by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements, including our study and evaluation of its system of internal accounting control, would not necessarily have disclosed all conditions requiring attention in the system of internal accounting controls because both the audit and the study employed, as is customary, selected tests of accounting records and related data.

Our examinations which, as indicated above did not include certain funds and accounts, disclosed the following conditions which are, in our opinion, material weaknesses in internal accounting control. A material weakness is a condition in which the prescribed procedures or the degree of compliance with them does not provide reasonable assurance that errors or irregularities in amounts that would be material in the financial statements would be prevented or detected within a timely period by employees in the normal course of performing their assigned functions.

PROPERTY, PLANT AND EQUIPMENT

The University, Station and Service have not developed or maintained subsidiary records which adequately support the balances included in the following plant fund accounts.

University:

- Land and land improvements
- Equipment

Station:

- Land and land improvements
- Buildings
- Equipment

Service:

- Equipment

Prior audit reports have stated that such detail records were not available, but should be developed. Although the University has devoted substantial time in developing the required subsidiary records, additional time and manpower will be required. The following is a summary of the prior recommendations and the University's progress to date.

Equipment in inventory summaries are not referenced to supporting documentation such as purchase order or claim number.

Equipment inventory adjustments are not supervised or reviewed by accounting personnel, and adjustments are not investigated.

Progress to date

Although substantial time has been devoted to the development of equipment records additional work is needed. As of June 30, 1979 approximately 30% of the departments have been audited by the property control departments, and additional inventories are in progress. As items are identified during inventory, or when purchased, they are physically tagged and added to the subsidiary records.

During our examination of the plant fund we noted the following additional items.

- Although all claims processed for equipment purchases are required to be forwarded to property and equipment personnel to ensure that they are entered in the subsidiary records there are no controls to ensure that these procedures are followed.
- No records are maintained as to the dollar values which were not located, or were deleted from the subsidiary records after inventory.
- The total costs identified as equipment purchases are not always the same as the costs identified in the subsidiary records.
- Parameters for classification as capital expenditures vary from the parameters used in counting and identifying property in the subsidiary records.
- No reconciliation is made for items accrued at year-end which may or may not have been received and included in the subsidiary records.
- Additions to the library volumes inventory records in the equipment subsidiary include costs originally charged to accounts other than capital expenditures.

Recommendations

As soon as management is satisfied that the property listings are complete, an appraisal based on estimated costs at acquisition should be used to either adjust the costs shown in the financial statements, or as a basis to allocate the costs in the financial statements to the properties shown. The subsidiary ledger should then be maintained on a current basis and periodically reconciled to the general ledger.

Management should review the current procedures for maintaining subsidiary records for all plant fund balances. At a minimum, controls and procedures should be developed to ensure that:

1. All additions recorded in the general ledger be identified in the subsidiary records.
2. The same parameters be used in identifying costs in the subsidiary records and in classifying capital expenditures.
3. All deductions from the subsidiary records be investigated and any adjustments to the records be approved before the equipment is written off.
4. Subsidiary records are adequately protected against loss or misplacement.

We understand that the planned statewide property accounting and management system is being developed which could provide assistance in maintaining the subsidiary records. However, all of the above controls will still be needed.

Management's Comments

Since our last Legislative Audit we have, as noted above, completed and reconciled to our general ledger our building accounts for the University and Extension Service. The University's account represent over \$57,000,000 (73%) of its total investment in plant. We are currently reviewing the State's property and accounting system (PAMS) with special emphasis toward comparison with our current system and the recommendations made above.

* * * * *

In addition to the above conditions, our study and evaluations of the system of internal accounting control disclosed the following conditions which, although not material weaknesses, are significant and deserve management's attention.

GENERAL ELECTRONIC DATA PROCESSING CONTROLS

The University currently relies on the Statewide Budgeting and Accounting System (SBAS) for processing of their accounting

data. Transactions are prepared locally and teleprocessed to Helena for inclusion in SBAS. Consequently, the University is very dependent upon the general data processing controls not only at the University, but within SBAS in order to safeguard the accounting records. As part of our tests of the internal controls, we reviewed the general controls of both SBAS and at the University.

SBAS Controls

Our examination included a review of the audit findings of the Office of the Legislative Auditor in their report on the SBAS computer facility within the Department of Administration. We noted the following general EDP control weaknesses which have potential impact on the University's mechanized data processing procedures:

- A. The Helena Computer Center does not carry insurance for data regeneration upon possible destruction by fire or other disasters.
- B. The access to the magnetic tape file library is not sufficient to minimize the possibility of invalid usage and/or alteration of data.
- C. There is inadequate segregation of duties between the operation area's functions and the production control and library functions.

University Controls

During our review of general EDP controls we noted a number of items we believe the University should address:

- A. Contingency planning - the EDP areas of the computer center and the controller's office have no formal agreements or informal understandings with other installations in the event of a disaster. We recommend that the University:
 - 1. Obtain such an agreement;
 - 2. Periodically test the alternative facility's compatibility; and
 - 3. Determine and document detailed disaster recovery procedures, including job-processing priorities and the specific mechanized and manual documents required to be stored offsite for disaster planning.
- B. Computer room access - presently, the computer room areas are protected by a closed, unlocked door. We understand access to the room is informally based on required usage and the number of employees directly interacting with the computer are few. However, we believe the University should

establish a policy to allow only specifically authorized personnel to have regular access to the rooms. The University should also consider having computer room access controlled by locked doors at all times.

- C. Offsite storage of critical files - our review indicated there are no formal offsite storage procedures of critical program and data files. We recommend the EDP and user department perform analyses of the existing applications to determine the extent of offsite storage requirements. After the analyses have been performed a formal storage plan should be developed. Copies of all critical material such as master files, transaction files, operating systems, source programs, job control language, system documentation, job set-up and run procedures, disaster recovery procedures, and hard copy forms should be stored offsite in a fireproof, controlled location. These materials should be rotated on a regularly scheduled basis.
- D. Remote terminal security - we noted the campus has numerous remote terminals which are generally unsecured at all times. In addition, these terminals have the same physical capabilities as the personnel department's terminal. While we understand the payroll program and data files have numerous password protection facilities, we believe the personnel department's terminal and any future financial related terminals should also have hardware protection.

Recommendations

We realize that implementation of all of the above procedures may not be cost effective. However, management should at least review the current procedures and identify the cost benefits available. If management believes that the additional costs are not justified at this time, a reevaluation should be performed at least annually.

Management's Comments

- A. We agree that an agreement with other installations for use of their computer in the event of a disaster would be beneficial. Unfortunately, there is no equipment in the State comparable to the Burroughs and none anywhere comparable to the Sigma. Accordingly, such an agreement would be economically unfeasible in the case of the Burroughs and impossible in the case of the Sigma. When the University's new computer arrives, the possibility of emergency backup will be reinvestigated.
- B. There is a computer operator on duty whenever the Burroughs computer room is unlocked. Because the room is small with only one access and because the authorized people entering the room are few and easily recognizable we believe protection is adequate.

- C. Certainly, controlling access to the Sigma by a locked door would be desirable if the only consideration was utmost security. In a University computer operation, however, total security must be compromised in order to serve the students, faculty and staff utilizing the computer. Accordingly, although we recognize the potential problems that could arise, we feel security for the Sigma is as adequate as our dedication to program will allow.
- D. Although we currently have secure offsite storage of certain critical program files (Sigma operating systems, for example), we recognize the need for formal offsite storage procedures. We will review our procedures and formalize them as we proceed with the installation of the replacement computer for the Sigma. It should be noted that the determination of which program and data files are to be stored offsite will of necessity be influenced by cost considerations.
- E. We believe our terminal security is adequate in consideration of the additional costs and impairment of various computer operations that additional security would cause.

SYSTEMS DOCUMENTATION

Although there is currently adequate documentation for subsystems developed and maintained by the Business Office Data Processing Department, there are no formal standards or procedures for systems development, implementation and maintenance. Consequently, loss of certain key personnel could result in future changes to the subsystem not meeting the current oral standards.

In addition, certain subsystems having financial impact, such as grants and contracts, and financial aid, have been developed outside the Business Office Data Processing Department. Consequently, the same documentation of systems and programs may not be available.

Recommendations

We recommend that formal standards for implementation of both new systems and improvements of existing systems be developed. The standards should include systems analysis and design, program development and testing, user coordination and acceptance of the program changes before implementation. In addition, the same standards should be applied to those systems which are developed outside the business office.

Management's Comments

New program and program changes are requested by the user and reviewed by the user for acceptance. However, a standardized checklist of standards for program changes and new programs will be developed and implemented.

SYSTEM CONTROLS

Currently, the data transmitted to Helena is edited as to valid transactions before it is transmitted. In addition, there are adequate checks to ensure that all transactions are received in Helena. However, there is no control to ensure that all transactions transmitted, and only those approved by the University, were processed and included in the general ledger and reports generated by SBAS.

We also noted that the Legislative Auditor recommended that batch controls or reconciliations of the authorized transactions with the monthly output from SBAS should be completed by the local agency. Based on our review of the present reports received from SBAS and the batch controls on hand at the University it does not appear that such a reconciliation is feasible without reconstructing all transactions processed for the month at the University.

Prior to June 30, 1979 data transmitted to Helena could be processed, edited in Helena and put into an error/suspense file, which in effect left the transaction outside the SBAS reports for the agency. The only follow-up of this error/suspense file was initiated by Helena. This follow-up was normally a telephone call to the controller's office. After accounting personnel orally told Helena personnel what corrections were needed it was assumed that the correction was processed and no additional follow-up was needed. There were instances where correcting entries were not made until the following month, or were not followed up for several weeks.

Since year end, written confirmation of these correcting entries are forwarded from Helena, showing the item as it originally appeared, and the correction processed. However, the initiation of corrective action is still dependent upon Helena.

Recommendation

We believe the accounting controls would be significantly improved if:

1. Summary reports of batches processed by SBAS were received and reconciled to local summaries of transactions transmitted by type of transaction.

2. A hard copy of the error/suspense files was available to the University to initiate timely correction of items not processed by SBAS.

We realize that both of the above may require some program changes within SBAS. However, such changes appear to be highly desirable to the University.

Management's Comments

We concur, but implementation is dependent upon Department of Administration action.

We recently received communication from the Department of Administration advising us that they are currently improving accounting procedures regarding the error/suspense files.

SYSTEM IMPROVEMENTS

The University, Station, and Extension currently have more than 300 entities and responsibility centers which must be manually consolidated in order to prepare reports for management. This manual consolidation is very time consuming and reduces the amount of time available to analyze unusual transactions or to assist management in analyzing the information available.

In addition, the SBAS reports allow encumbrances to be recorded, which in some instances, is not needed by management.

Although terminal inquiry is available for local management to request additional information, it is limited to one line item, or account balances. Consequently, the terminal is very limited in its ability to provide information that is needed on a timely basis.

Recommendation

Management should continue to request and assist the Department of Administration in developing improvements to the SBAS reporting system. It appears that significant cost savings could be obtained if:

1. The terminal inquiry capability is expanded to include information other than specific line items or balances.
2. The reports that are available include consolidation of accounting entities by fund group.
3. The budgeting control accounts for revenues and expenditures are segregated and not included in the fund balances reported.
4. Summary totals of batches processed by type of transaction were available to the University to follow-up and ensure that the University transactions are processed in Helena.

5. The file of accounting entities in existence at year-end be automatically included in the following years opening balances.
6. Special reports be prepared to satisfy reporting needs, such as expenditures by category, or year to date transactions for specific items (such as personnel services, operations, capital, or by object code).

Management's Comments

We concur and will continue to work with the Department of Administration in their efforts to improve and update SBAS.

GENERAL

Our review of the accounting procedures and the system of internal control was made to determine the degree of reliance which could be placed, for financial statement reporting purposes, upon information obtained from the accounting records. We found, in general, that the systems were operating as described. However, we believe consideration should be given to conducting periodic operations audits of major functions or departments, such as claims processing, payroll, cash receipts, accounts receivables, financial aid, data processing, etc. These reviews could be performed by internal audit personnel, to not only ensure that University procedures and policies are being followed, but to aid in developing more efficient methods of processing data and improve your internal controls.

Recommendation

Management should consider hiring an internal auditor.

Management's Comments

We concur. The University first created an internal auditor position in 1969. However, due to budget restraints, the position has been vacant since the summer of 1978. As soon as budget priorities allow, the position will be refilled.

CONTINGENCY REVOLVING FUND

The contingency revolving fund is operated similar to a petty cash reimbursement account. It is used primarily for items which must be paid locally due to timing requirements. During the year ended June 30, 1979 checks written through the contingency revolving account totaled \$17,993,000. The large dollar amount of transactions was caused by:

- A. Use of contingency revolving funds to pay most claims during the first six months of the year due to processing problems after the initial conversion to SBAS.

- B. Use of the funds for those payments which must be accompanied by order forms, statements or other documents which cannot be made readily available in Helena.
- C. Used for most scholarships, student loans, refunds, travel advances, cattle purchases, or other types of payment which should not be delayed by the 10-day processing time requirements for preparation of a state warrant.

Cash on hand is deposited in non-interest bearing accounts. During the year, the general ledger balance varied between \$500,000 and \$1,000,000, but the bank balances at times were in excess of \$1,000,000.

Recommendation

Management should consider:

1. Depositing these funds in interest bearing accounts and transferring funds to the checking accounts only as needed.
2. Transferring cash to the local bank only as needed, and leaving the cash in funds available to the State Treasurer for investment.
3. Writing checks against state controlled bank accounts.

Management's Comments

We agree that funds in the contingency revolving account could be invested. However, we are precluded from doing so by State procedures. We will, of course, work with the State Department of Administration if it desires to act on this recommendation.

CHECK WRITING

We noted the following weaknesses in the current procedures for writing checks.

- A. Although four individuals are authorized to sign checks, only one signature is required regardless of the amount of the checks. Most checks are signed by the business manager who is currently responsible for supervision of the personnel reviewing the supporting documents, recording the cash reimbursements, and reconciling the bank account.

- B. Although prenumbered checks are used, other current practices lessen the effectiveness of this control over cash transactions. For example, spoiled checks are not reused, but other checks outside the numerical sequence are issued and accounted for as the same number in the check sequence. In addition, checks with duplicate number sequences were used during the year.
- C. After the check is typed and run through the check protector, the information is manually transcribed to the check stub which serves as the check register.
- D. There were instances in which the checks were returned to the requesting or approving department for mailing. In some cases the checks were addressed to the approving authority for the claim.
- E. It appeared that bank reconciliations were delayed for several months during the year due to lack of personnel. Although the accounts were reconciled by year-end, they should be reconciled in a timely manner by personnel not responsible for recording the receipts or disbursements.

Recommendations

Management should consider:

- 1. Requiring more than one signature for checks in excess of \$10,000 or some other stated dollar amount.
- 2. Improving the accounting for checks by simply voiding checks which must be corrected.
- 3. Using duplicate checks so that the second copy could serve as the check register, rather than preparing a manual listing.
- 4. Requiring that all checks and supporting documents be mailed by the business office and not the requesting department.
- 5. Testing to ensure that the bank accounts are reconciled monthly.

Management's Comments

- 1. We believe that the improvement in internal control realized by someone other than the business manager signing checks is more apparent than real. All disbursements from the contingency revolving account must be reimbursed through normal state procedures which provides significant audit review. In addition,

we propose to make a review of the contingency revolving account a part of an ongoing internal audit program when we rehire an internal auditor. Accordingly, we believe our current method of signing checks is proper.

2. We will stop the practice of changing check numbers and will record voided checks as such. All future check orders will be for non-duplicate check numbers.
3. We recognize the advantages of utilizing check forms which provide for duplicate check copies for accounting purposes. We will re-examine our procedures and, if the additional cost is justified, implement the use of voucher checks.
4. Our standard procedure is to mail checks directly to the payee. However, it may be necessary in some instances to return a check to the department which requested it. We will review our procedures to assure checks are mailed directly to the payee whenever possible.
5. Bank reconciliations were delayed when personnel were fully occupied with the implementation of SBAS. Bank reconciliations are currently being prepared within 15 days after the bank statement is received. The person responsible for preparing the bank reconciliation no longer records receipts or disbursements.

INVESTMENTS

Cash that is available to the University is invested primarily in the Montana Short-Term Investment Program (STIP). Although STIP identifies the total investments for the University, Station, and Extension, it does not identify the source of the funds by entity level, or the allocation of the income to the proper nominal accounts. The University maintains manual detail records to identify the source of funds and properly allocate the investment revenues when distributed by STIP.

Although STIP does provide some controls over the total investments of the University, Extension and Station, the approving authority and responsibility for disbursements, sales, and allocation of revenues is currently assigned to one individual.

Recommendation

We recommend that management periodically review and approve the transactions authorized by the treasurer, and test the decisions as to allocations of revenue.

Management's Comments

We concur with this recommendation but feel that it is most readily implemented as part of an on-going internal audit program. Accordingly, we will comply when we are able to rehire an internal auditor.

MULTILITH OPERATION

The Montana Cooperative Extension Service operates a printing and reproduction service known as multilith. Multilith is essentially a service organization, providing services which would normally be purchased commercially, but because of convenience and cost savings are provided by the institution.

The current cash receipts procedures used by multilith are not adequate. Multilith receives some cash in payment for printing service. The cash is not deposited or recorded. Instead, it is used to pay small bills. This understates both revenue and expenditures as well as providing inadequate control over cash. Also, checks that are received are not deposited in a timely manner. Receipts should be deposited with the business office promptly and intact.

In addition, we noted instances in which items were not billed until several weeks after completion.

Recommendation

Management should develop internal controls necessary to ensure that all revenues are identified and recorded as earned. In addition, such receipts should be deposited intact when received.

Management's Comments

In October 1979, the Multilith Service established a petty cash change fund. Accordingly, over the counter cash sales will no longer be used to pay small miscellaneous invoices and all payments received for printing services will be deposited intact. The use of pre-numbered receipts for all jobs will be implemented starting January 1, 1980.

CHEMISTRY STORES

The Chemistry Department currently operates a chemistry store which sells supplies to students and faculty, and also issues supplies to the chemistry department. The chemistry store's inventory procedures required substantial additional management time due to the lack of standard procedures for pricing and extending the physical inventory.

Recommendation

Management should consider transferring the responsibility for the chemistry store to the service shop or purchasing department. If the responsibility is not transferred, someone within the Department of Administration should more closely supervise the procedures used in extending the inventory and periodically test issuance and receipts procedures to determine if they are operating as described.

Management's Comments

We recognize the problems encountered by chemistry stores in controlling and accounting for their inventory. However, numerous operational problems are inherent in transferring the operational responsibility for chemistry stores to a department other than the chemistry department. We are currently working with the chemistry department to improve their inventory methods. Additional reviews will be done in the future when our internal auditor is replaced.

ACCOUNTS RECEIVABLE

Although the Business Office currently maintains subsidiary records, through a service bureau, for all federal loan programs, the financial aid office is currently responsible for:

- A. Recording and billing amounts due from the federal government for college work study, or from related institutions, or outside employees.
- B. Maintaining and providing the subsidiary records for loans due from active students.
- C. Preparation of the fiscal operation reports.

Since the financial aid office normally approves these transactions, we believe that someone else should reconcile and follow-up on the accounts receivable balances.

Recommendation

The responsibility for reconciling the accounts receivable balances and maintaining the subsidiary records should be transferred to the business office.

Management's Comments

We are currently reviewing the possibility of transferring the responsibility for maintaining the subsidiary records for the rest of the student loan programs and for the college work study program from the financial aid office to the business office.

* * * * *

These conditions were considered, to the extent necessary, in determining the nature, timing and extent of our audit tests applied in our examinations of the agencies financial statements..

Arthur Young & Company
Arthur Young & Company

and

Wesley Carlisle
Wesley C. Carlisle, CPA

December 5, 1979

